INVESTMENT OUTLOOK

AUTUMN 2016

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Irish Life Investment Managers Ltd ("ILIM") are part of the Great-West Lifeco group of companies, global leaders in financial services. We continually strive to meet and exceed expectations by delivering class leading service and investment solutions to Irish Life's domestic and international clients whether they are retail, corporate or institutional. We have over €60 billion* in assets under management on behalf of those clients who trust, believe and invest in our award winning investment capabilities.

*Source: ILIM, correct as at 30/06/2016.

Irish Pensions AWARDS 2015

WINNER

Investment Manager of the Year

As expected, 2016 has turned out to be both a positive and a volatile year for most markets and most investors. Economic forecasts and commentary continue to be scrutinised for signs of comfort as investors soak up the stock market reaction to various events, some expected and some not so expected. Uncertainty is uncomfortable for forecasters and investors alike but is not necessarily always a bad thing.

In such circumstances, however, investors inevitably focus on risk management and fund performance. Irish Life's flagship multi asset funds, Irish Life MAPS, have delivered on both fronts in 2016. The assets under management in MAPS are heading for €2bn, and the broader group of MAPS-like strategies are already over €6bn and growing fast. Having only launched in 2013, it is a significant achievement that MAPS are by far the largest retail multi asset portfolios in Ireland today by assets under management.

In this Investment Outlook, our in-house fund managers and economist share their insights and outlook for the major assets classes (equities, bonds, property and alternatives) and examine how they have fared year to date and what the future may hold in a post Brexit world.

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SECTION 1

INTRODUCTION

Seldom in financial markets is news unilaterally "good" or "bad". While it might obviously be bad for some, there are almost certainly others for whom it is, perhaps less obviously, good. Brexit is a good example, where because of weaker sterling, Irish goods being sold in the UK are more expensive and less competitive, which is clearly bad for Irish exporters. On the other hand, there are potentially significant new job opportunities for Ireland with businesses reliant on an English speaking environment relocating from the UK.

It would be a mistake to assume to know the full extent of the repercussions of the UK leaving Europe yet. When it comes to potential outcomes, there are known knowns (both good and bad), there are known unknowns (things to watch out for) and there are unknown unknowns (unforeseen outcomes from unexpected events). It is not even clear IF Brexit will happen but what is clear is that if it does, there will be winners and losers. The challenge for governments, businesses and investors is to be in the former group rather than the latter.

In such an environment, every stock market move, every economic forecast and every government summit will drive short term investment sentiment as investors try to 'stay ahead of the curve'. That short term focus will drive market volatility which has been a significant feature in 2016 and with big events like the US elections still to come, is likely to remain so.

...SO, ARE MARKETS AT THE BEGINNING OF THE END OR THE END OF THE BEGINNING?

Personally, I think it is neither...or perhaps it is both. Let me explain - I think markets are at the start of a new beginning. This new beginning is likely to be characterised by lower structural returns across most asset classes and higher levels of volatility as investors wrestle with the conundrum of a still-recovering global financial market supported by a liberal application of the worlds' best economic sticky plasters. Will that be enough? The broad consensus is probably yes but it is hard to ignore the feeling that conviction is low, evidenced by periodically fragile confidence.

As expected, 2016 is proving to be a challenging although positive year and a significant departure from the relatively benign markets of years gone by. It is in such an environment that Irish Life continually strives to deliver unparalleled support for our clients with first class communications and industry leading investment products and service. We have never been more committed to supporting you and look forward to further opportunities to share with you our experience, expertise and award winning investment team in 2016.

David Haslam
Head of Retail, ILIM

IRISH COMMERCIAL PROPERTY

SOLID FOUNDATIONS

SECTION 2

IRISH COMMERCIAL PROPERTY

IRISH PROPERTY INVESTMENT MARKET IN PERSPECTIVE

The Irish commercial property investment market continued to command solid investor interest in H1 2016 as the market entered a mature phase of the cycle. Overseas capital remains an important component of the market, with an increasing cohort of core buyers active. Market activity has been less intense than previous years with fewer active sellers. The market has not been impacted by the UK Brexit vote, although it did coincide with a relatively quiet summer trading period. However, the uncertainty Brexit created has heightened the risk around future returns from the sector. The weight of investment activity over the last 3 years has resulted in significant yield compression across the different sectors of the market. The prime office yield appears to be stabilising at 4.65%; the prime retail yield has edged in to 3.75%, and the prime industrial yield reduced significantly to 6.0%. Current yield levels are below their long term average but are supported by a 4% gap over 10 year bond yields and the prospects for further rental growth.

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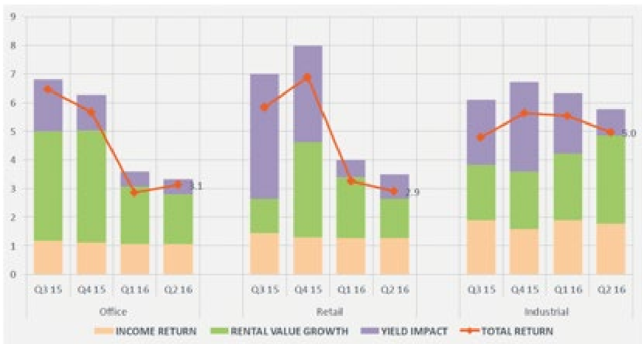
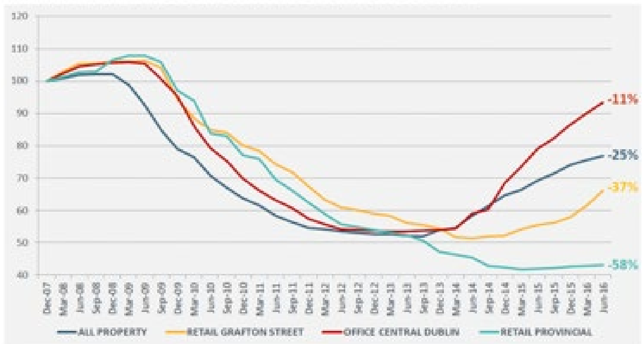


Source MSCI/IPD

Investors are broadly positive on rental growth robustness, and positive if unspectacular rental growth is viewed as attractive by international core capital. Over recent quarters, office and retail occupier fundamentals have been the largest driver of capital growth, with Dublin office rental growth leading the way and rental growth emerging in prime retail locations.

MARKET RENTAL VALUE GROWTH INDEXED FROM DEC 2007



Source MSCI/IPD

The prime Dublin office rent now averages €57.50 per square foot, up from €27 per square foot at the bottom of the market, and is approaching the level achieved at the peak of the last cycle. Rental growth has been driven by a lack of availability of office stock in the city centre and a record level of tenant demand as business service sector employment continues to grow. The rate of rental growth has expectedly slowed and the majority of prime rents achieved are still likely to be in the order of €50 to €55 per sq. ft. with some exceptional new builds achieving above this level. A number of speculative office schemes commenced in the city centre and the potential for pipeline delivery and the robustness of future tenant demand is now in focus.

Retail rental growth continues to filter through to prime Grafton Street and Henry Street units. Zone A rental values on Grafton Street and Henry Street have increased to €600 per sq. ft. and €400 per sq.ft respectively, although there are a limited number of market lettings. These rents are still significantly below the peak levels of the last cycle. Prime industrial rents are rising, currently €8 per sq.ft, with supply constraints a feature of the warehousing market in particular for large, modern specified units in prime industrial locations.

INVESTOR DEMAND AND ACTIVITY

The current phase of the cycle is seeing polarised investor positions with good demand from core international buyers focussed on yield but supported by the good relative outlook for the Irish economy, while private equity/hedge funds have been less active on acquisitions and have commenced resales. Domestic institutional retail funds have been buyers while the REITS have been passive with marginal buy/sells.

Investor demand for prime property yielding assets is expected to persist, with interest rates destined to remain low for longer, combined with the relative attraction of Ireland as a growth economy. This is being recognised by a growing cohort of overseas mainly German, French, US and Middle East core style investors, who in addition to domestic institutions and domestic REITs have become significant players in the market. This class of investor will grow in importance as the private equity investors look to recycle property through sales over the next few years. These international investors enhance market liquidity potential and transparency, leading to a more mature property market, in stark contrast to previous cycles. Transactions completed during the first half of the year demonstrate the makeup of the current active investor cohort. The largest office transactions saw the PWC Headquarters at Spencer Dock in the IFSC acquired by AGC (on behalf of a Middle East investor) for €240m and The Oval, a mixed use office scheme in Dublin 4 purchased by German investor Patrizia for €180m. Significant retail transactions included Whitewater Shopping Centre which was acquired by Deka for €180m, Golden Island Shopping Centre in Athlone acquired by Credit Suisse for €43m and Childers Road Retail Park acquired by Irish Life for €45m. The largest deal this year – Blackstone's purchase of Blanchardstown Towncentre for €950m - does demonstrate that private equity interest remains for selective assets.

Childers Road Retail Park Limerick
Irish Life's new dominant open user retail park anchored by Dunnes Stores and The Range

BREXIT UNCERTAINTY IN A MATURING CYCLES

The maturing ownership profile of the Irish real estate market is expected to continue to improve despite Brexit induced uncertainty. Given the prospects of an extended period of low yields following the Brexit vote, domestic Irish and international investors are expected to continue to be attracted to yielding investments like real estate. The relative pricing of Irish real estate, with the IPD/SCSI Index equivalent yield at 5.8% and prime offices at 4.65%, at over 4% above the Irish bond yield suggests that prime Irish property remains attractively priced, with the spread over bonds having actually increased since the Brexit vote.

Early indication suggest that interest from existing and a range of new core investors remains positive, with buyers currently focussed on endeavouring to secure prime stock off market, while preparing for the upcoming autumn marketing season. The selective marketing of Liffey Valley Shopping Centre, at a reported asking price of €600m, will be an important test of core investor appetite. While further yield compression is unlikely market wide, should it occur through competitive bidding it would have a positive impact on property values and returns from the sector in the short term, but it would risk pushing values beyond fair value relative to other markets, particularly if anticipated rental growth were to disappoint.

There has been much speculation that Brexit will trigger relocation of London office occupiers to other EU locations. Dublin is an obvious alternative. While there is currently limited availability of office space in the Dublin city centre, there is strong pipeline potential with delivery of new space aligned to suggested Brexit timing in two years. In addition, Ireland now has a great opportunity to enhance its success in attracting US companies to establish and expand their European bases in Irish cities as an ultimate alternative to the UK or a safer choice during a period of uncertainty. Early post Brexit vote leasing activity is very positive with the strong take up levels and enquiries experienced in H1 continuing.

Irish Life has a number of attractive space options available for relocating occupiers; including the impressive 1GQ waterfront development which provides 130,000 sq ft of LEED Platinum space; and, Hainault House on St Stephens Green, the only new office development available at Dublin's best office address.

Hainault House St Stephens Green
New office development by Irish Life

The potential impact of Brexit on the retail and industrial property sectors has received little attention. Rental growth prospects from the retail sector are directly aligned to prospects for the domestic economy. Therefore post Brexit, current positive rental growth prospects for retail would be exposed in a lower domestic growth scenario. Early messages from selective UK retailers suggest they remain relatively positive on future trading appetite in Ireland. While they may experience more onerous and costly operating challenges as a result of Brexit which would be expected to impact on profitability, it is likely to put UK retailers in no worse a trading position than existing non EU retailers trading in Ireland.

Recent retail rental growth in prime locations has occurred from a level of competitive tension from a relatively small number of retailers - domestic, European, US and some UK retailers - with non UK retailer to the fore. These have tended to react to availability of good units in prime streets rather than having blanket expansion plans and there is nothing to suggest that this trend will not persist through Brexit.

Summary

Strong activity levels expected despite emerging risks

The market is anticipating a busy autumn with several transactions ongoing, some notable properties due to be launched for sale over the coming weeks and a range of development funding opportunities being promoted. While uncertainty persists we expect good investor support for core prime assets, however with less buying activity anticipated from private equity funds and the potential for an increase in supply of less prime property, there is a risk of some weakening in pricing for non-prime stock.

Income return and rental growth are expected to deliver positive returns for the remainder of 2016 and 2017. However all investors need to be realistic as to the expectation of future returns from the sector given the exceptional level of return over recent years, and be fully aware of the inherent sector and wider economic risks, as the pricing and rental cycles evolve.

Martin O'Reilly
Head of Property, ILIM

EQUITY MARKETS

GOOD RELATIVE VALUE...BUT RELATIVE TO WHAT?

SECTION 3

EQUITY MARKETS

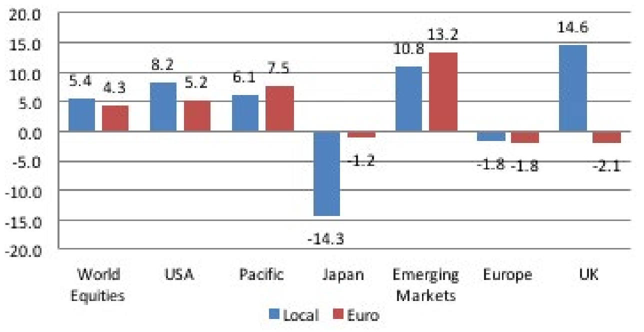
2016 YEAR TO DATE

- Equity Performance
- Regional Performance
- Equity Market Drivers

EQUITY PERFORMANCE

To say it has been eventful in equity markets to date in 2016 would be an understatement! While global equities (illustrated below) are up a respectable +5.4% year to date to the middle of August, it masks the significant volatility experienced by investors during that time. Indeed, global equities have had to bounce +19.8% from their lows in early February, following the early year sell off associated with renewed concerns over Chinese growth, to achieve that +5.4% return.

MARKET RETURN YEAR TO DATE (AS AT 11 AUGUST 2016)



Source: Factset

REGIONAL EQUITY PERFORMANCE

Performances across regions have been quite different with the worst performing regions in local currency terms being Japan and Europe due to stronger currencies which has negatively impacted exporters. This is in sharp contrast to 2015 when these two regions were the best performing markets.

Regions which have performed better in 2016 include those which have benefited from weaker currencies this year, notably the UK. The US has also performed well as interest rates remain on hold while economic data has begun to surprise positively in recent months. Emerging market equities have also risen strongly on the delayed rise in US interest rates while the recovery in commodity prices since February has also stabilised economic growth.

EQUITY MARKET DRIVERS

Source: Factset

MARKET FOCUS

- Renewed China Growth Concerns
- Central Banks
- Oil Prices

CHINA

Equities began 2016 under immediate selling pressure as weak Chinese equity markets and softness in their economic releases gave rise to renewed concerns about the growth outlook for China. As was the case in August and September 2015, fears of possible contagion from a hard economic landing in China contributed to significant declines in global equities.

CENTRAL BANKS

There were also concerns that global central banks had run out of options to combat the threat of weaker growth and deflation and, thus, support the global economy if required.

OIL

Despite lower oil prices being viewed as positive for global growth via the boost they give to consumer spending power, the continued collapse in oil prices in January gave rise to negative connotations. These ranged from the associated credit pressures in the banking sector to persistent fears lower prices reflected weaker global demand.

FEBRUARY BOTTOM AND BOUNCE

Having fallen just over 12% in the first six weeks of the year, equity markets bottomed in early February as concerns in relation to the above issues began to ease and recovery was soon underway.

- Chinese Stimulus
- Oil Price Recovery
- Central Bank Policy
- Brexit
- New Market Highs

CHINESE STIMULUS

Chinese authorities implemented measures to support the economy with a significant improvement to economic news flow from February onwards removing fears of a hard landing in the Chinese economy and potential contagion to the global economy.

OIL PRICE RECOVERY

The oil price also troughed around the same time as OPEC members began discussing the possibility of a production freeze in an effort to support prices owing to the financial pressures they were experiencing with oil in the mid $20's bl while US shale oil production also began to decline with production facilities being closed as production became unprofitable at these price levels. The oil price subsequently rallied over 85%.

CENTRAL BANK POLICIES

The ECB surprised positively announcing a larger than expected package of measures as it increased the level of monthly asset purchases by €20bn to €80bn. That package now includes non-financial corporate bonds in the purchase programme, a reduced deposit rate (an additional -0.1% to -0.4%) and a facility whereby banks could borrow from the ECB at rates as low as -0.4%. The depth and innovative nature of the package with its focus on credit generation was well received by markets and contributed to the rebound in markets.

The US Fed also was much more dovish in its policy guidance as it cut its forecast for the number of interest rate rises in 2016 from four to two and emphasised that the pace of rate rises through the current cycle would be more gradual than previously suggested.

BREXIT

Global equities recovered steadily from February through to June, leaving them effectively unchanged for 2016 immediately prior to the UK Brexit referendum on EU membership. Global equities immediately fell almost 5% given the expected result and potential negative impact on UK and European growth. There were also fears of political contagion within the EU and the Eurozone given the perceived potential risks to European institutions from a possible rise in anti EU sentiment following the outcome of the UK referendum. Equity markets however quickly regained the losses associated with Brexit. The negative economic consequences of the outcome were seen as being essentially contained within the UK and Europe with only a marginal hit to global economic growth.

NEW HIGHS FOR 2016

Global equities moved to new highs for the year through July and August with US equities reaching new all-time highs as speculation grew regarding the possibility of increased levels of global fiscal stimulus, greater policy coordination between fiscal and monetary authorities and a notable improvement in US economic data through July.

EQUITY MARKET OUTLOOK

- Outlook
- Equity Valuations
- Relative Equity Valuations

OUTLOOK

Equity valuation multiples have risen to above their long term averages in absolute terms. Equities do however remain extremely attractive on a relative valuation basis given the low yields available on alternative assets such as bonds and cash which provides support for equities.

The global economic growth appears set to remain in the 2.5%-3.0% range evident in recent years. It is likely to be closer to the bottom of this range given sluggish growth in the US in the first half of 2016 and the risks to growth in the UK and Europe following Brexit. Chinese growth is also expected to slow somewhat in the second half of the year as the impact of the stimulus measures from earlier in the year fade although growth is expected to remain above 6%.

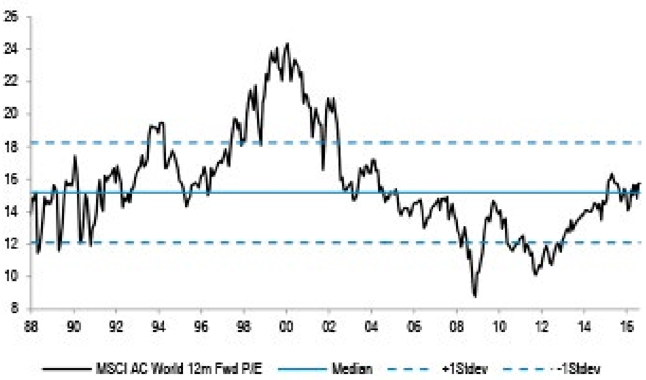
Currently, forecasts for global earnings growth in 2017 are 13%. Historically, global growth rates of around 2.5% have been associated with earnings growth of 3-5%, thus suggesting that there are downside risks to earnings growth forecasts next year.

Considering all of the above, we believe absent a significant increase in fiscal stimulus, upside in equity markets for the remainder of the year is limited. Over the medium term however, while the global economy continues to grow around current growth rates of 2.5/3.0% and valuation levels continue to be supported by low interest rates, global equities should generate low to mid-single digits in coming years. While positive medium term returns from equities can be expected, we are likely to be in a lower return environment than has been the case in recent years.

EQUITY VALUATIONS

Following recent gains equities are no longer cheap in absolute terms having risen above long term averages as shown below.

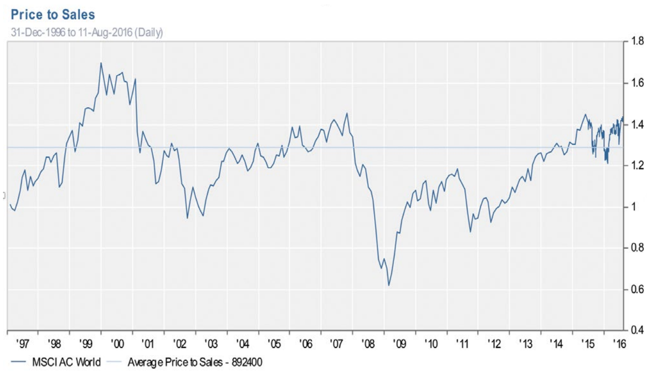
GLOBAL EQUITY 12 MONTH FORWARD P/E MULTIPLE



Source: JP Morgan/Factset

On the basis of 12 month forward price to earnings, global equities currently trade on a P/e multiple of 15.8x versus a long term average of 15.1x. Assuming 2017 earnings forecasts are downgraded to 5% from the current 13%, this would imply the 12 month forward P/e multiple based on likely earnings is 16.6x.

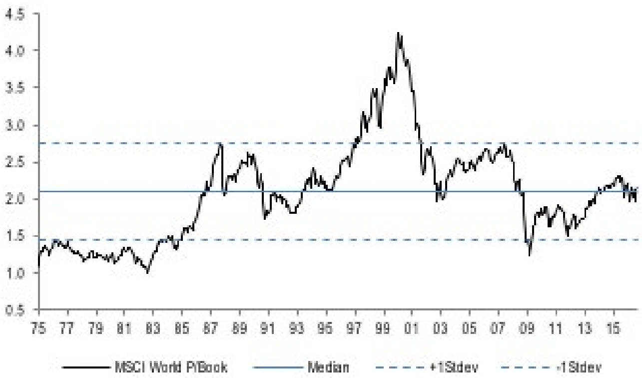
GLOBAL EQUITY P/SALES MULTIPLE



Source: Factset

Global equities are currently trading on a price to sales multiple of 1.44x versus a long term average of 1.35x.

GLOBAL EQUITY P/BOOK MULTIPLE



Source: Factset

On a price to book multiple global equities are slightly above the long term average of 2.09x at 2.15x.

GLOBAL EQUITY DIVIDEND YIELD

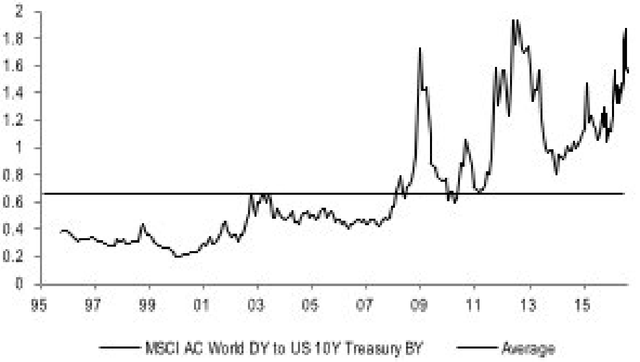
Source: JP Morgan/Factset

On a dividend yield basis, global equities currently yield 2.47% versus a long term average of 2.60%. Payout ratios have also moved above long term averages suggesting dividend growth may be lower than earnings growth over the next few years as dividend cover is rebuilt.

EQUITY RELATIVE VALUATIONS

The strongest valuation case for equities remains a relative one based on a comparison against other assets like bonds or cash, given the low yields available on these assets. The chart below compares equity valuations relative to bonds by dividing the global equity dividend yield by the yield on US 10 year treasuries (a proxy for global bonds).

GLOBAL EQUITY DIVIDEND YIELD V'S BOND YIELDS



Source: JP Morgan/Factset

Summary

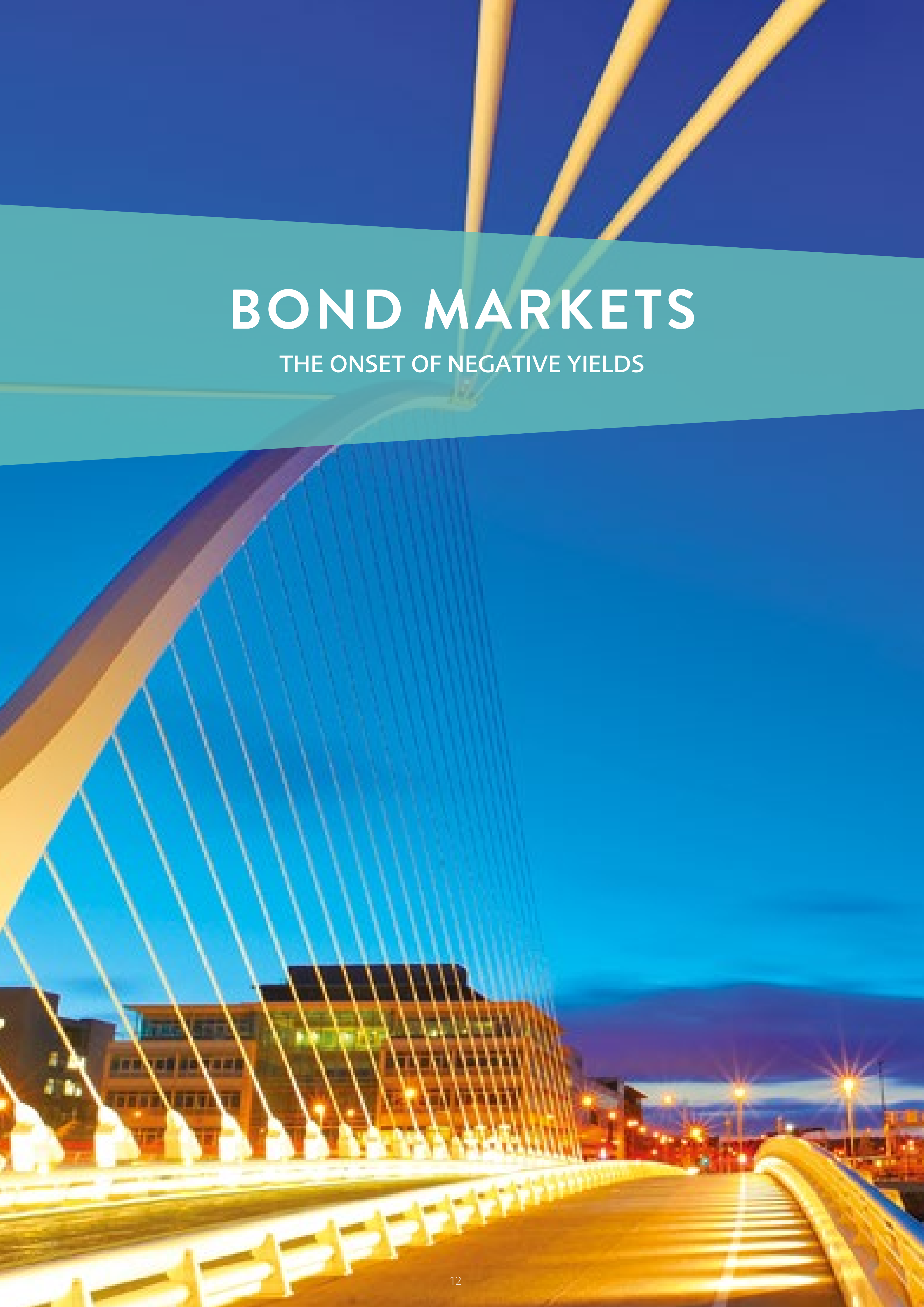
Following the gains over recent years and the mid-single returns in 2016 to date, global equity valuations have moved from being significantly undervalued in absolute terms to now being slightly expensive relative to long term averages. With the global economy set to continue growing at relatively modest but positive rates of growth, corporate earnings growth in coming years is expected to be in the region of 3/5%. In this context, consensus global earnings growth forecasts for 2017 of 13% appear too optimistic and are likely to be downgraded which could lead to some pressure on equity markets. Equities in relative valuation terms however do look extremely attractive given the low yields available in alternative asset classes such as bonds and cash and this provides support for equity markets. Were global growth to gain momentum and improve in coming years through increased levels of fiscal stimulus with greater coordination between fiscal and monetary authorities, the outlook for equities would improve although we believe it is unlikely this will occur.

Overall, given the above we believe the upside in equities over the remainder of 2016 is probably limited from current levels and in coming years we are likely to be in a lower return environment for equities compared to recent years with returns more likely to be in line with earnings growth, somewhere in the region of low to mid-single digits.

Lenny McLoughlin
Chief Economist, ILIM

BOND MARKETS

THE ONSET OF NEGATIVE YIELDS



SECTION 4

BOND MARKETS

2016 REVIEW – JANUARY TO JUNE

Eurozone bond markets had a very good first half of 2016 with the Merrill Lynch Eurozone Government bond index posting a return of 5.7% (to 30/06/16)

The beginning of 2016 showed that global economists keep overestimating economic growth in the belief that global economies can grow in excess of 3%. However, once again the data releases confirm that the globe in its current state is only capable of producing growth rates of close to 2%. During the first half of 2016 this was combined with another drop in commodity prices, especially oil, which all but eliminated any potential threat from rising inflation.

Given that Central Banks are seen to be able to fix all economic ailments, the lethal cocktail of low growth and low inflation, left its mark on Central bank commentary. In the US, the Federal Reserve had initially pencilled in four rate hikes for 2016 but it quickly became clear economic conditions might barely support one before the year end. In Japan and in the Eurozone, the Bank of Japan (BOJ) and the ECB were both forced to resort to negative interest rates and increased buyback programmes (Quantitative Easing or QE). The ECB cut the deposit rate to -0.4%, increased its monthly bond purchases to €80bn and included Corporate Bonds in its purchase program from June onwards.

The final downward push in bond yields came from the UK's shock decision to divorce from the EU. Stock markets are pricing in that Central Banks will have to smooth over the separation cracks with further rate cuts and QE.

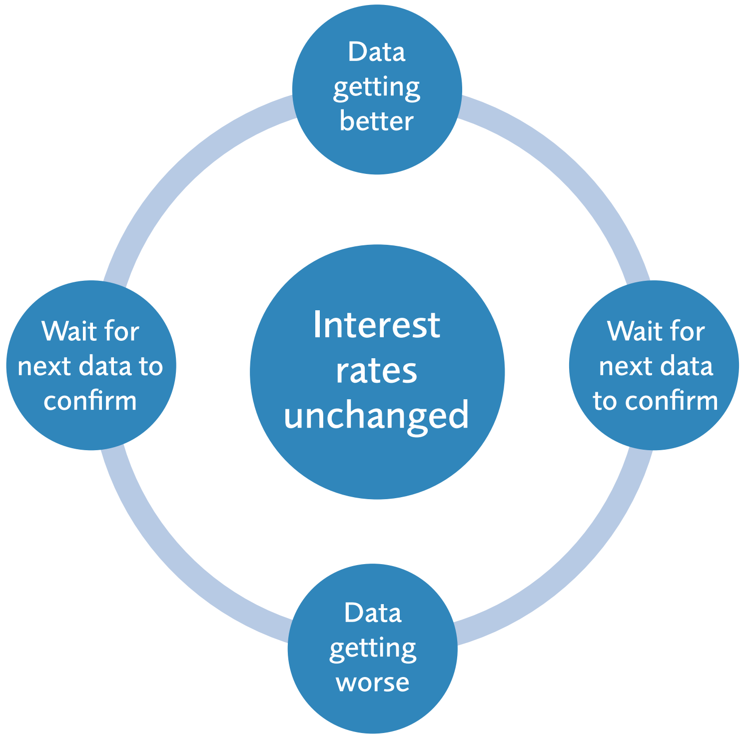
As a result bond yields reached new lows in the first half of 2016. The graph below shows the 10 year government bond yield for Germany, US, Japan and Ireland.

10 YEAR BENCHMARK BOND YIELDS

Source: Bloomberg

2016 FIXED INCOME OUTLOOK

For the second half of 2016, given that Central Banks currently are the dominant force for bond markets, bond yields will very much depend on future actions by these Central Banks. In the US the Federal Reserve has backed itself into a corner. After initially forecasting four rate hikes for 2016 the Fed became more and more data dependent as the year went on. With the US Fed now working on the following basis any rate changes can be discounted for the foreseeable future:

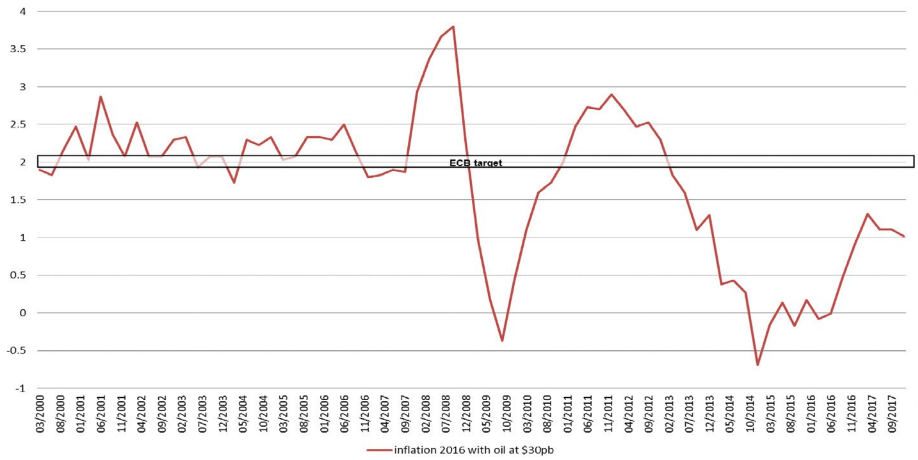


In Japan markets expect a further cut in official rates and another increase in QE. At its end of July meeting, the BOJ obliged with a small increase in QE, but left rates unchanged. However, this was accompanied by a not insignificant economic stimulus package by the Japanese Government. As a result the BOJ could be on hold for the remainder of the year to allow recent measures time to stimulate the economy.

In the Eurozone the ECB has already aggressively cut rates in 2016 and increased its monthly bond purchases to €80bn. However, Brexit is expected to further dampen growth by up to 0.5% over the coming months. As a result the market expects the ECB to announce further measures at its September meeting. But so far ECB measures have not come without side-effects. Negative interest rates have put substantial pressure on Banks, savers and pension funds. At the same time QE will reach bottle necks over the coming months if the ECB sticks to its self-imposed parameters of limiting bond purchases to bonds with a yield higher than the deposit rate (-0.4%), maximum of 33% of any issue and the capital key for countries. Already, the ECB is forced to increasingly buying longer dated bonds in Germany and France, resulting in 30 year German bond yield as low as 0.34% with 15 year German bonds trading at a negative yield. Yet the ECB will have to be careful with any changes as this could lead to substantial distortions in yields.

Overall inflation should have a limited impact on the ECB decisions and bond yields. Some base effects are expected to see Eurozone HICP back up to 1% in early 2017, but a far cry from the ECB's target of 2%:

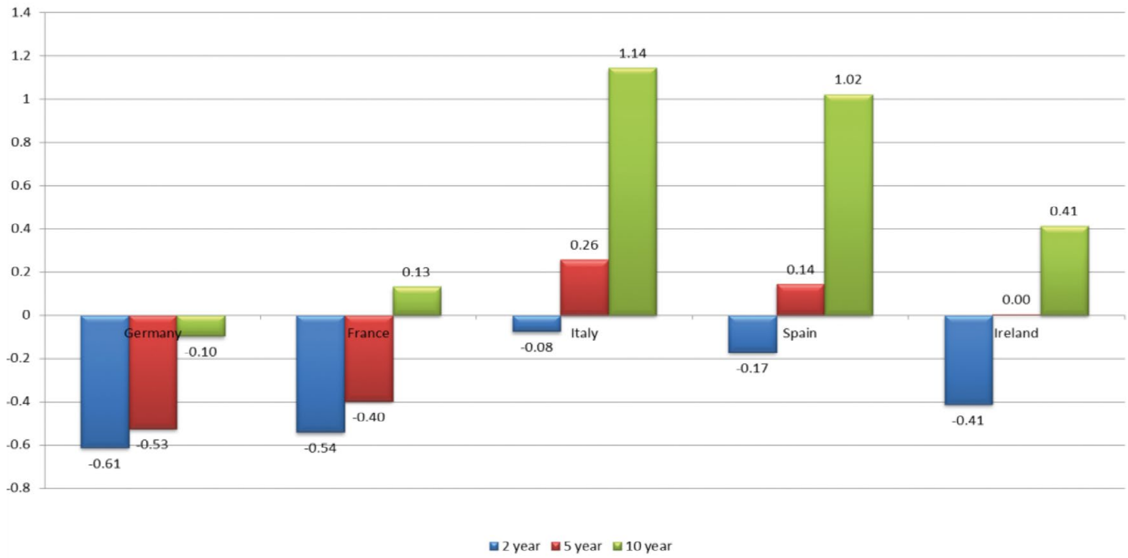
EUROZONE HICP (INFLATION) INCLUDING FORECAST FOR 2016



Source: Barclays

Given the current uncertainty we cannot rule out that 10 year core government bond yields will trade in a wide range between +0.2% and -0.2% in the second half of 2016. At the same time, the hunt for yield and ECB purchases will support peripheral bond markets with the chance of further spread tightening. The chart shows the early August yield levels of 2, 5 and 10 year Government bonds:

EUROZONE BOND YIELDS



Source: Bloomberg

Summary

Given that the ECB will remain the dominant buyer for Eurozone Government, Quasi Government, Covered and Corporate Bonds the Fixed Income market will remain well supported into year end. Overall yields will remain low for the foreseeable future with limited risks for meaningful setbacks over the period.

Max Plapp
Head of Bonds, ILIM

ALTERNATIVES

PROVIDING VITAL PORTFOLIO DIVERSIFICATION ...

SECTION 5

ALTERNATIVES

Total assets under management with hedge funds climbed during the second quarter of 2016 to almost $2.9 trillion, finishing above year end 2015 levels, and equalling the third highest levels on record. Hedge funds performed well during the Brexit referendum period, which buoyed inflows into the sector. The increased volatility in equity markets benefitted certain strategies which were able to gain from uncertainty in financial markets.

EVENT DRIVEN strategies have seen an improvement in performance following a difficult period in 2015. As the name suggests, these are strategies designed to profit from correctly anticipating the outcome of certain market events which could be anything from the outcome of a vote to a successful corporate take-over of one company by another. These types of strategies saw some underperformance in 2015 as many managers followed the same deals, resulting in a certain amount of 'crowded' trades.

In 2016, there have been plenty of opportunities for event driven strategies to get involved in markets and potential profit margins have been attractive in the merger arbitrage space in particular. Merger arbitrage strategies are focused on market inefficiencies at the time of a merger or take–over announcement. For example, when one company announces its intention to acquire another, merger arbitrage managers consider the risk of the deal not going through or the deal being delayed in some way. The acquiring company's stock price typically declines, while the target company's stock price generally rises immediately following the announcement. By buying a position in the target firm, investors can potentially take advantage of the discount in the price of the target firm relative to its value following the deal closing. The risk, of course, is where a deal fails to complete for market, regulatory or other reasons and the shares that you bought in anticipation of a successful outcome fall in price as a result.

LONG/SHORT EQUITY STRATEGIES had a rough start to the year, but performance is picking up across the fund universe over recent months. This is a strategy where fund managers buy shares in one company and sell the shares in another. The skill is to be able to identify a fundamental relationship between two investments (individual shares, sectors or even geographies) and correctly anticipate, and time, a catalyst that might change that relationship. For example, it could be that a manager thinks that European shares will outperform US shares – he would buy European shares and sell US shares. If the assessment is correct, the long/short strategy will be successful and profitable. Certain managers have benefitted from sectors such as healthcare and technology on the long side. Energy stocks and consumer discretionary have generated returns on the short side.

The result of the Brexit referendum was not one that was expected by financial markets. Hedge funds were particularly keen to protect against losses and to possibly gain from increased volatility and the opportunities that may arise.

A number of hedge funds took the opportunity to bet that Britain would vote to leave the EU and shorted UK Equities as a result. Stock markets fell sharply in the immediate aftermath of the vote, generating returns for those with short positions. An example of this is shares in Berkeley Group, the homebuilder focused on London and south-east England losing a fifth of their value on the Friday after the Brexit vote. Equities did rally in the weeks following the referendum but does illustrate a real and recent example of the short-term opportunities that long/short managers may try to gain from.

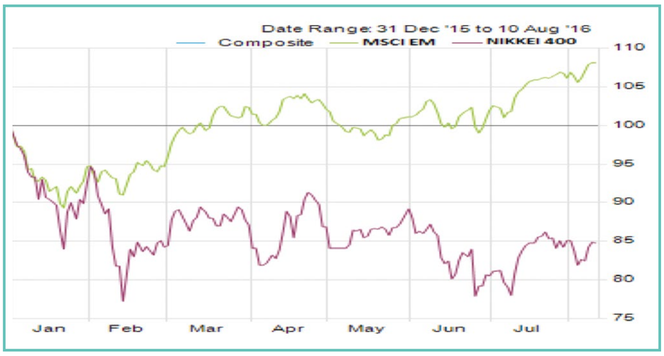
Source: Berkeley Group

TRENDS

A number of trend managers have benefited from market conditions in recent months. Trend fund managers make use of momentum based strategies to benefit from markets trending upwards or downwards over time. Trend fund managers make use of options and other derivatives in order to implement their trades across asset classes. A long bond position (buy bonds) for example has been a successful strategy across managers 2016 to date. It is of course important that managers implement this type of strategy correctly in terms of timing and direction of trend. Performance of trend followers varies between funds but the strategy continues to be an important part of alternative portfolios due to the diversification benefits they provide.

MACRO AND GLOBAL

Macro and Global managers have seen increased volatility impacting on returns over the year. A systematic global macro manager for example can take large amounts of data into account when constructing an optimised portfolio. The manager might systematically seek opportunities based on gaps between asset valuations and sentiment signals in the market. Opportunities might arise in the form of a position taken in under-priced Emerging Market equities. If a manager deems this type of asset to contain value it is likely that they will take a long position in order to gain from increases in valuation.



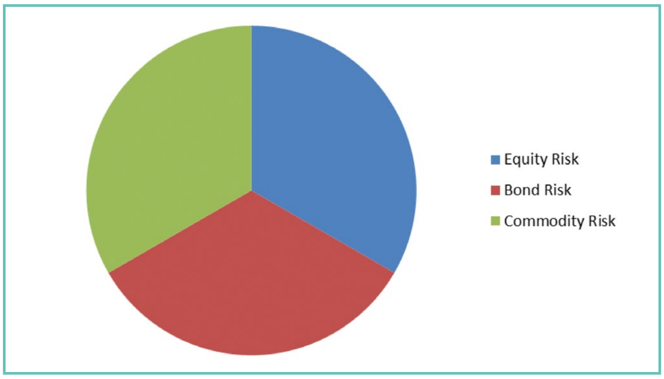
Source: Bloomberg

A short equity position (sell shares) could be held in Japanese equities, with the overall portfolio benefitting from a fall in equity values in one region and an increase in another. A well-diversified macro fund is an important component of an alternative portfolio, and one that we predict will add value as the year progresses.

RISK PARITY

This type of strategy is based on the creation of a multi-asset portfolio with a focus on how the risk in the fund is allocated as opposed to the capital. The portfolio looks similar to a traditional portfolio but with reduced weight given to equities for example and greater weight given to bonds. Risk Parity funds provide diversification benefits as they hold asset classes that typically do not move in the same direction as each other.

The strategy suffered some losses during 2015 as allocations to commodities performed poorly. The increased performance of commodities coupled with the current bond rally has resulted in some strong performers in this sector in 2016. A simple risk parity portfolio might look something like this:



Source: ILIM

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INDEX PERFORMANCES AND MARKET DATA

SECTION 6

INDEX PERFORMANCES AND MARKET DATA

Equity Markets (%) (in Local Currency)	2011	2012	2013	2014	2015	2016 YTD (to 16/09)
Ireland	2.6	20.5	35.8	16.8	33.6	-8.9
UK	-2.2	10.0	18.7	0.7	-1.3	11.0
Europe Top 50	-14.1	18.1	21.5	4.0	6.4	-7.8
US	2.1	16.0	32.4	13.7	1.4	6.7
US Technology	-1.8	15.9	38.3	13.4	5.7	4.7
Japan	-17.3	22.9	56.7	7.1	9.1	-13.2
Emerging Markets	-14.9	13.9	0.9	2.6	-8.0	8.1
World Index	-8.5	13.2	22.9	7.2	-0.7	1.5

Source: Moneymate

Sovereign 10yr Bond Yields (%)	2011	2012	2013	2014	2015	2016 YTD (to 16/09)
U.S.	1.9	1.7	3.0	2.2	2.2	1.7
German	1.8	1.4	1.9	0.5	0.6	0.0
UK	2.0	1.9	3.0	1.9	1.9	0.9
Japan	1.0	0.7	0.7	0.3	0.2	0.0
Ireland	8.4	4.5	3.4	1.3	1.1	0.5
Italy	7.1	4.6	4.1	2.1	1.6	1.3
Greece	31.7	12.7	8.2	9.6	7.9	8.5
Portugal	13.4	6.9	6.1	2.7	2.5	3.4
Spain	5.1	5.4	4.1	1.6	1.7	1.0

Source: Bloomberg

Central Bank Rates (%)	2011	2012	2013	2014	2015	2016 YTD (to 16/09)
ECB	1	0.75	0.25	0.05	0.05	0.0
Bank of England	0.5	0.5	0.25	0.50	0.50	0.25
U.S. Federal Reserve	0.25	0.25	0.25	0.25	0.50	0.50

Source: Bloomberg

Foreign Exchange Rates	2011	2012	2013	2014	2015	2016 YTD (to 16/09)
Euro/Dollar (€/$)	1.30	1.31	1.37	1.21	1.09	1.12
Euro/Sterling (€/£)	0.83	0.81	0.83	0.78	0.75	0.85
Sterling/Dollar (£/$)	1.55	1.61	1.65	1.56	1.46	1.31

Source: Bloomberg

IPD All Property Return	2011	2012	2013	2014	2015	2016 YTD (to end of Q2)
Ireland	-2.4	3.1	12.7	40.1	25.0	6.3
U.K.	8.1	2.7	10.7	17.8	13.1	2.5
U.S.	14.5	5.3	11.4	11.2	12.1	4.1

Source: IPD

Warning: Past performance is not a reliable guide to future performance

* Information correct as at 29/01/2016

** Equity market returns are total returns

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